

**LEMON GROVE [SANITATION DISTRICT]
AGENDA ITEM SUMMARY**

Item No. 4
Mtg. Date May 3, 2016
Dept. Public Works

Item Title: [Amendment to the Agreement with NBS Government Finance Group for the Sanitation District Rate Study]

Staff Contact: [Tim Gabrielson, District Engineer and Mike James, Public Works Director]

Recommendation:

[Adopt a resolution (**Attachment B**) amending the agreement for the Sanitation District Rate Study (Contract No. 2016-01) to NBS Government Finance Group.]

Item Summary:

[On December 1, 2015, the City Council awarded an agreement for the sanitation district rate study to NBS Government Finance Group (NBS). The intent of this study was to calculate a minimum equivalent dwelling unit for Sanitation District (District) users based on all anticipated district expenditures for a five year period.

In April 2016, NBS presented an initial report to city staff. Components of that report included a rate structure for five years, confirmation of all anticipated expenditures, and a recommendation to continue the study for an additional year to calculate rates other than a flat fee. Each component is further detailed in the enclosed staff report (**Attachment A**).]

Fiscal Impact:

[If the amendment is approved, staff anticipates the NBS agreement to extend through June 30, 2017 and not to exceed \$67,500.]

Environmental Review:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Not subject to review | <input type="checkbox"/> Negative Declaration |
| <input type="checkbox"/> Categorical Exemption, Section [] | <input type="checkbox"/> Mitigated Negative Declaration |

Public Information:

- | | | |
|--|---|---|
| <input checked="" type="checkbox"/> None | <input type="checkbox"/> Newsletter article | <input type="checkbox"/> Notice to property owners within 300 ft. |
| <input type="checkbox"/> Notice published in local newspaper | <input type="checkbox"/> Neighborhood meeting | |

Attachments:

- A. Staff Report
- B. Resolution

Attachment A

LEMON GROVE [SANITATION DISTRICT] STAFF REPORT

Item No. 4

Mtg. Date May 3, 2016

Item Title: [Amendment to the Agreement with NBS Government Finance Group for a Sanitation District Rate Study]

Staff Contact: [Tim Gabrielson, District Engineer and Mike James, Public Works Director]

Discussion:

[Every four to five years, the Lemon Grove Sanitation District evaluates the Sanitation District rates paid by Lemon Grove Sanitation District users. The rates charged per equivalent dwelling unit (EDU) fund expenditures related to the transfer and treatment of wastewater through the District's sanitary sewer system to the City of San Diego, the cost associated with the annual capital improvement program, and the expense to maintain mandatory reserve funds.

Sanitation District History:

On June 28, 2002, the Board of Directors of the Lemon Grove Sanitation District adopted Resolution No. 183, which determined that an adjustment to the sewer service charge per equivalent dwelling unit (EDU) in the City was necessary to keep pace with inflation, City of San Diego Metropolitan Wastewater Department cost increases, and for both major and minor maintenance of the District's infrastructure.

In 2007, a financial model was created to analyze the various costs needed to operate and manage a sanitary sewer system. Some of those costs included:

1. The City of San Diego's Metropolitan Wastewater Department's (MWWDD) costs to transfer and treat all wastewater they receive from the District,
2. Future MWWDD capital improvement projects,
3. District generated capital improvement projects to operate a sanitary sewer system, and
4. Maintaining a mandatory program cash reserve for unforeseen operational and maintenance events.

On May 17, 2011, the Sanitation District Board (Board) approved a 3.75 percent rate increase for five consecutive years from Fiscal Year (FY) 2011-12 to FY 2015-16. At the time, the Board expressed an interest in reducing the recommended rate increase if at all possible in the future. Two examples when staff returned to the Board with recommended reductions to the annual rate increases occurred on:

- On June 19, 2012, staff presented the Board an opportunity to reduce the previously approved rate increase from 3.75% to 3.25% for FY 2012-13, 3.50% for FY 2013-14 and 3.75% for FY 2014-15 and FY 2015-16 which the Board subsequently approved through the adoption of Ordinance No. 25.
- On June 3, 2014, the Board adopted Ordinance No. 26 which reduced the previously approved sewer rate increase for FY 2014-15 and FY 2015-16 to 1.72%.

In order to ensure an accurate method of calculation is used, staff recommends that periodically the District perform a financial modeling plan. The plan will continue to evaluate current sewer rates relative to the anticipated capital, operational, and maintenance obligations in future years.

Attachment A

NBS Technical Memorandum:

On December 1, 2015, the City Council awarded an agreement for the sanitation district rate study to NBS Government Finance Group (NBS). As in prior studies, the intent of this study was to calculate a minimum equivalent dwelling unit for Sanitation District (District) users based on all anticipated expenditures. In April 2016, NBS presented its initial findings to city staff. Components of that report included a detailed summary of anticipated revenues/expenditures, review of the District's reserve funds, and a brief summary discussion of alternative methodologies to calculate rates other than a flat fee. Those items are summarized in the next section of the staff report listed below.

Summary of Revenues:

NBS does not anticipate any revenue shortfall based on the current amount of expenditures during the next fiscal year. However, when NBS reviewed the District's connection fee it brought to staff's attention that this fee may not be fully capturing the appropriate amounts to fund the District. This item will require an additional amount of analysis to determine if there should be an amendment to the amount of the connection fee. Should the agreement be extended this item will be evaluated.

District Reserve Funds:

The District currently has two reserve funds: Operational Reserves (40% of the total annual operational costs in the District) and Rate Stabilization Reserves (equivalent to one year of Metro Wastewater transportation and treatment costs).

During its review, NBS recommended moderate increases to the levels of reserves due to increasing costs of utilities, possibility of an increase in transportation and treatment costs from the City of San Diego, increase in the facility improvements for the Metro system, and an increase in the amount of the rate stabilization reserves based on the increases previously mentioned.

Options to Calculate District Rates:

Since 1989, the District has used the same methodology to calculate its District user fees. While this methodology is sound, it has been a source of complaints from residential and commercial District users due to a flat fee charge rather than a charge based on the actual amount of water consumed by each user. With increasing conservation efforts mandated by the State and local water districts, staff recommends further analysis to consider alternatives to the Districts rate methodology to consider if there are more equitable methodologies for residents and commercial entities in the District. NBS has experience with this type of analysis and worked with staff to prepare the following options with a brief summary of the benefits and drawbacks of each option.

1. Partial Equivalent Dwelling Unit:

- a. *Description:* This method was used by the County of San Diego in 1972. It combined the benefits of a flat fee EDU method with a reduced flat rate based on the type of dwelling unit. The smaller the dwelling unit the smaller the flat fee.
- b. *Benefits:* Enabled for a flat fee processing of payment.
- c. *Drawbacks:* Still not fully equitable based on the amount of water used. With any change in the flat fee method there is the chance that the amount of revenue will increase or decrease based on the type of dwelling units in the District.

Attachment A

2. Consumption Based:

- a. *Description:* This method is fully based on the amount of water each dwelling unit consumes. Fees are calculated based on water usage information from Helix Water District regarding each account in the City.
- b. *Benefits:* This is the most equitable method to calculate each district user's fee because it is based on the household's actual consumption.
- c. *Drawbacks:* There is an added staff intensive component that is necessary to acquire the water usage, confirm the usage amounts of water use per address, and then bill that final amount to the County tax rolls each year. And, the amount of revenue generated by the District fees will change because it will be based on the total amount of consumption rather than a flat fee.

Moving Forward:

NBS satisfactorily reviewed and recommended a rate structure for a five year period as was originally requested by the District Board. However, there are a number of new components that staff now feels should be further analyzed in order to recommend the best methodology to calculate rates, review and assess if sufficient funds for the construction of capital projects is addressed, and recommend the proper level of reserves to fund all District projects while also avoiding any rate spikes to district users. For these reasons, staff believes there is merit to continue working with NBS and create a second phase of work that will provide this analysis.

Cost for Services:

The existing scope of work with NBS lasts until January 5, 2017 with the total fees not to exceed \$43,235. Due to the reduced scope of work that NBS is anticipated to perform in FY 2015-16, the total fee is anticipated fee will not to exceed \$16,500, which is \$26,735 less than originally budgeted. Moving forward to FY 2016-17, staff anticipates NBS will perform additional analysis that will not exceed \$51,000. The total two year proposal of \$67,500 is \$24,265 more than the original agreement amount.

If the extension is approved, NBS will continue to work closely with District staff during the fiscal year to refine its final five year report based on the changes discussed in this report. The five-year analysis and presentation will return to the District Board in March or April 2017 for discussion and final consideration.

Conclusion:

[That the Sanitation District Board adopts a resolution (**Attachment B**) amending the professional services agreement for the Sanitation District Rate Study (Contract No. 2016-01) to NBS extending the agreement until June 30, 2017 for an amount not to exceed \$67,500.

RESOLUTION NO. 2016-_____

RESOLUTION OF THE LEMON GROVE SANITATION DISTRICT AMENDING A PROFESSIONAL SERVICES AGREEMENT TO NBS GOVERNMENT FINANCE GROUP FOR THE SANITATION DISTRICT RATE STUDY (CONTRACT NO. 2016-01)

WHEREAS, on June 28, 2002, the Board of Directors adopted Resolution No. 183 to adjust exist sewer rates; and

WHEREAS, in 2007, a financial model was created to analyze the various costs needed to operate and manage a sanitary sewer system; and

WHEREAS, each fiscal year the rates charged per equivalent dwelling unit (EDU) should account for the increased costs associated with transporting and treating wastewater from the District, maintaining the capital infrastructure in the District, and provide necessary fund reserves for unforeseen operational and capital shortfalls; and

WHEREAS, the District anticipates several increases in operational, maintenance, treatment, transportation, and capital improvement costs over the next 5 to 10 years; and

WHEREAS, there is a need to reanalyze the current environment by performing a financial modeling plan that will evaluate current sewer rates relative to the operational and maintenance obligations; and

WHEREAS, the District relies on the expertise of a consulting firm that possesses expertise in completing sanitation rate studies and financial modeling plans; and

WHEREAS, in December 2015, the District evaluated three proposals and determined NBS Government Finance Group was the best-suited consulting firm to complete this project; and

WHEREAS, the District has a need to continue working with NBS Government Finance Group to research and analyze other components of the District's finances beyond the original agreement date of June 30, 2016; and

WHEREAS, the final product of NBS Government Finance Group's analysis will better assist the District to forecast the minimum revenues necessary to support and maintain the District's operations.]

NOW, THEREFORE, BE IT RESOLVED that the [District Board] of the Lemon Grove Sanitation District, Lemon Grove, California hereby:

1. Amends the expiration date of the professional services agreement with NBS Government Finance Group not to proceed beyond June 30, 2017; and
2. Establishes a project budget not to exceed sixty-seven thousand five hundred dollars and zero cents (\$67,500.00); and
3. Authorize the Executive Director or designee to execute the agreement and manage all project correspondence.]

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